

SPECIAL EDITION



from the
DESK OF DAVID H. STEVENS
Assistant Secretary for Housing/Federal Housing Commissioner



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In April of this year, FHA issued a Final Rule, “Federal Housing Administration: Continuation of FHA Reform—Strengthening Risk Management through Responsible FHA-Approved Lenders,” which made many changes to the way FHA conducts business. As part of our ongoing commitment to better FHA’s ability to manage its risk, the rule strengthened our lender approval criteria and made FHA-approved lenders responsible for the oversight of mortgage brokers.

The final rule, which followed a proposed rule for public comment in September 2009, aligned our risk management practices within the conventional marketplace and will help FHA mitigate losses and decrease risk to its insurance funds. In developing the rule, we welcomed your input, recognizing the need to balance our policies with the needs of our responsible industry partners.

Since its publication, we have received additional feedback from program participants. After reviewing your comments regarding transitioning to compliance with the new changes, we are extending certain effective dates in order to give our lending partners more time to transition to their new business models.

Temporary Extension of Deadline for Obtaining Unconditional Direct Endorsement Approval – Extended to July 1, 2011:

We are extending the deadline for obtaining unconditional direct endorsement (DE) approval for those DE-eligible entities that wish to participate as a Principal in Principal-Authorized Agent originations. A Principal-Authorized Agent origination is a type of FHA origination by two FHA-approved mortgagees (neither of which is a loan correspondent).

The Principal-Authorized Agent relationship is used when the two FHA-approved lenders originate a loan together and both need access to the loan file in FHA Connection. In a Principal-Authorized Agent origination, the Principal must originate the loan, and the Authorized Agent must underwrite the loan.

The Final Rule changed Principal-Authorized Agent relationship originations to require that both lenders (Principal and Authorized Agent) possess unconditional direct endorsement approval. This requirement was to take effect January 1, 2011. Subsequent analysis determined that many non-DE mortgagees need additional time to complete test cases for DE approval.

LINKS

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We have decided to provide a six-month extension (to July 1, 2011) for this requirement. This extension will allow sufficient time for most non-DE mortgagees to obtain unconditional DE approval to become Principal mortgagees in Principal-Authorized Agent originations of Title II single family loans.

Without this extension, these non-DE mortgagees will only be able to participate in the origination of single family loans on or after January 1, 2011 as sponsored originators until they have obtained unconditional DE approval. All other changes to Principal-Authorized Agent requirements in the Final Rule will take effect January 1, 2011, as previously announced in Mortgagee Letter 2010-20. FHA mortgagees that do not obtain unconditional direct endorsement approval by July 1, 2011, can no longer act as Principals. However, they may continue to pursue unconditional approval through the test case process and may participate in originations of FHA single family loans as sponsored Originators.

Temporary and Narrow Extension of FHA-Approval for Loan Correspondents – Extended to March 31, 2011, with conditions:

The final rule provides that FHA-approved Loan Correspondents may close FHA-insured mortgages in their names until December 31, 2010. However, we have been advised that a significant number of Loan Correspondents have mortgage loans that have been assigned FHA case numbers but are unlikely to close by December 31, 2010. A majority of these cases are due to uncertainty in the timing of the mortgage lending process which may be outside the control of the lender.

Since FHA will no longer be approving Loan Correspondents after December 31, 2010, they will be statutorily prohibited from closing FHA-insured mortgage loans in their own names. If we do not extend that deadline, the inability of currently approved Loan Correspondents to close mortgage loans in their names will likely disrupt the loan processes of a significant number of lenders. This could negatively impact many borrowers who have already qualified for loans and who may be compelled to work with a new mortgage lender and incur additional costs.

Because of this, we are also granting a temporary extension of FHA-approval for currently approved Loan Correspondents with pipeline loans that meet certain criteria for the narrow purpose of allowing these loans to close in the Loan Correspondents' names. This extension will extend FHA-approval of currently approved Loan Correspondents for the narrow purpose of permitting existing loans in their pipelines to close in their names.

This extension will only apply to loans in which a case number has been assigned and the loan has been approved by a DE underwriter as of December 31, 2010. The extension will expire March 31, 2011.

The extension only applies to loans for which, as of December 31, 2010:

(1) HUD has issued a firm commitment for insurance; or

(2) A DE underwriter has approved the borrower for such loan (i.e. the lender has received and accepted approval via TOTAL Scorecard or has manually underwritten the loan).

This approval includes the DE underwriter review and approval of the appraisal. Loans eligible for this waiver must close by March 31, 2011. The FHA approval of all Loan Correspondents for all other purposes will expire on December 31, 2010. All other pipeline loans that do not meet these criteria and have not closed prior to January 1, 2011, must close in the name of an approved FHA Lender/Sponsoring Lender.

For more details on the waivers, open the WAIVERS attachment.

These extensions are another example of our efforts to improve FHA's policies so that we can continue to provide access to credit in today's marketplace while at the same time recognizing the business needs of the lending industry. Thank you for your continued support of FHA and the mission we serve.

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